

Social Capital Without Co-operation

Social Capital: reviewing the Concept and its Policy Implications (2003) issued by the Australian Government Productivity Commission is an important research paper that has missed an important point.

The report notes that social capital is an evolving concept that relates to social norms, networks and trust that facilitate co-operation within or between groups. The paper identifies the following benefits to society of social capital:

- Reducing transaction costs.
- Promoting co-operative behaviour.
- Diffusing knowledge and innovation.
- Enhancing personal well-being.

Australia's co-operative movement could readily identify with these benefits for they inform the establishment and development of social capital. Co-operatives are an organized form of co-operation. Individuals and groups join together for their mutual benefit.

It is also noted in the research paper that devising policy to create social capital generally is problematic for government but that government should consider the scope for modifying policies that damage social capital and ways of harmonizing existing social capital. This comment also has resonance with the co-operative movement which is committed to developing relationships with government but based on co-operative autonomy and independence.

Despite the relevance of the comments to co-operatives, the point missed by the research paper is that co-operatives are an organized form of social capital. It is a point not missed by Robert D. Putnam one of the world's leading theorists of social capital. In *Bowling Alone: The Collapse and Revival of American Community* (2000), Robert D. Putnam recognises that co-operatives and mutual aid societies are at the core of organized reciprocity and civic solidarity. In *Making Democracy Work: Civic Traditions in Modern Italy* (1993) Putnam has recognised the critical role of co-operatives and mutual aid societies as characteristics of those regions in Italy with an effective government. Similarly, on p 29 of the research report the US National Commission for Civic Renewal is referred to as having developed a civic health index but it is not acknowledged that this includes associational membership such as co-operatives and trade unions.

The research paper notes that the first use of social capital as a term was in 1916 but that it was not until the 1990's that the term was used regularly and continuously. While the term social capital might not have been discussed much before the 1990s, different terms were being applied to organized social capital – co-operatives, friendly societies, building societies and credit unions. All of these

social capital mutual institutions have a rich history of literature. What follows is a selective list of some of the Australian literature on co-operation to illustrate its scope and depth.

It is not possible to seriously assess social capital in Australia without including the contribution of co-operatives and other mutual benefit societies. Co-operatives are unique businesses that are based on explicit values and principles. These are articulated in the International Co-operative Alliance's Statement on the Co-operative Identity adopted in 1995.

A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise. Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, cooperative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

The cooperative principles are guidelines developed by the International Co-operative Alliance by which cooperatives put their values into practice.

1st Principle: Voluntary and Open Membership Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

2nd Principle: Democratic Member Control Cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives members have equal voting rights (one member, one vote) and cooperatives at other levels are also organised in a democratic manner.

3rd Principle: Member Economic Participation Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

4th Principle: Autonomy and Independence Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external

sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.

5th Principle: Education, Training and Information Cooperatives provide education and training for their members, elected representatives, managers and employees so they can contribute effectively to the development of their cooperatives. They inform the general public – particularly young people and opinion leaders – about the nature and benefits of cooperation.

6th Principle: Cooperation among Cooperatives Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.

7th Principle: Concern for Community Cooperatives work for the sustainable development of their communities through policies approved by their members.

What these principles provide is a clear value base for co-operatives as an organized form of social capital – providing a precision and clarity that the research report denies exists in the nature and explanation of social capital.

Social Capital in Practice

In considering social capital in practice, the research paper identifies some areas in which it may be better to enhance or harness social capital in social services. It cites by way of example the provision of social services by volunteers. It also generally refers to enhancing social capital in disadvantaged communities as a way of reducing crime reduction and corrective service costs. Because of its failure to recognise co-operatives as an organized form of social capital, the paper neglects to acknowledge the role of co-operatives in providing social services in countries such as Brazil, Japan, Singapore and Sweden.

The research report leads a section with the heading Promoting cooperative and/or socially-minded behaviour . On p 18 and 19 it is stated that :”Within organisations, a workplace culture of openness and trust can promote cooperation and information sharing among staff and thereby advance corporate goals.” On p 19 it is further stated that: “In communities within countries where capital markets are weak, strong social capital can facilitate the pooling of finances, which can then be invested in projects such as schools, village enterprises or irrigation infrastructure.” In many countries, including Australia, this “pooling” has included the establishment of co-operatives e.g. co-operative banks, newspapers and stores. How is it possible to write about promoting co-operation without acknowledging and specifying co-operatives?

The research report argues on p 55 that: “Implicit in many proposals for government action to maintain or build social capital is the view that people and private institutions, when left to their own devices, will not generate sufficient

social capital to serve the overall community interest.” Co-operatives through their purpose and structure serve the overall community interest and it is critical that it is recognised that co-operatives are fundamentally different from private investor-owned companies.

The report proceeds on pp 58 – 60 to examine the complexity of government choice and involvement in the development of social capital:

- Ambiguity and uncertainty surrounding the social capital concept.

- The need for multiple and mutually reinforcing policies.

- The requirement for localized solutions.

- Social capital forms may generate perverse effects.

- The measurement of social capital is problematic.

On p 60 it is concluded: “These five features make it difficult to assess whether current policies or new policy proposals can contribute positively to the building of social capital, or even to assess the extent to which they can support social capital generated by the community. In turn, they hamper assessments of the appropriate mix of such policies.”

This analysis is bureaucratic and muddled. It is muddled because it ignores the history of dialogue between co-operatives as an organized form of capital and government. There have been a series of Asia-Pacific Co-operative Ministers’ Conferences to develop a clear and common understanding between the co-operative movements and their respective governments.

A new report released by ACCORD would have assisted the Productivity Commission in understanding the link between co-operatives and social capital:

Wickremaratchi , Jayo and Passey, Andrew State of the Sector: New South Wales Co-operatives 1990-2000, ACCORD, June 2003

This report State of the Sector: New South Wales Co-operatives 1990-2000 is compelling because it meets a critical need for robust statistical information about co-operatives. The report provides this overview of co-operatives in NSW inter alia:

- More than three quarters have an annual turnover of less than A\$1 million.

- Four percent of co-operatives account for 72% of total turnover in the sector.

- Current assets of over A\$1 billion.

- 1.29 million members

- Approximately 13,500 employees.

An annual turnover of A\$4.4 billion.

Advocates of co-operation in Australia have been compromised by rhetoric based on assertions and vagueness and the absence of basic facts about co-operatives such as their activities, turnover, assets, member equity, membership and employment. Yet, this information is fundamental to our ability to engage in public debate about the co-operative option.

The focus of this report is co-operatives in NSW but there is some useful tantalizing Australia-wide information. It is noted that the number of co-operatives under separate co-operative acts in the different States and Territories was more than 2,350 in 2000. Of these, 37% were in NSW and 44% in Victoria.

In the middle of 2000 there were 787 active co-operatives in NSW and eight under administration. The analysis is based on 676 co-operatives who submitted annual returns for 1999-2000.

The report covers co-operatives registered under NSW state co-operative legislation. It does not include, therefore, credit unions, building societies and friendly societies.

Six different types of co-operatives are identified:

Primary producer.

Other producer.

Consumer.

Human service.

Culture & recreation.

Interest group.

This classification uses the Australia New Zealand Standard Industrial Classification (ANZSIC) system to classify activities of co-operatives. Regional activities of co-operatives are classified by the Australian Standard Geographical Classification system.

Key financial ratios are provided by co-operative types – operating profit as a percentage of turnover, assets utilization as indicated by the assets-to-turnover ratio, liquidity and debt/equity.

Data is provided on the number of new co-operatives formed in different industries and the number of co-operatives deregistered for each year between 1990/91 and 1999/2000.

The financial performance of the co-operatives is also provided for each of these years – turnover, assets, member's equity, number of members and employment. Profiles are also provided for the different types of co-operatives.

The report is essential reading for anyone interested in basic facts about Australia's co-operatives. It is to be hoped that a similar analysis will be undertaken for other States and Territories – particularly Victoria with 44% of co-operatives registered under State co-operative legislation. For this information to go beyond historical use, the analysis would also need to be undertaken on a regular basis. ACCORD is to be congratulated for beginning this process.

The co-operative movement is an important organized contributor of social capital and this has been recognised by the International Labor Organisation in R 193 Promotion of Co-operatives Recommendation 2002. A copy of R193 follows. R193 was adopted by the ILO on 3 June 2002 and provides a framework for government support of co-operatives through policies, programs and practices that facilitate and enhance the co-operative option. It is disappointing, therefore, that the research report has ignored R 193 Promotion of Co-operatives. R 193 has a significant contribution to the research paper's concerns in acknowledging the autonomy and independence of the co-operative movement in its relationship with government.

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R193 Promotion of Cooperatives Recommendation, 2002

The General Conference of the International Labour Organization,

Having been convened at Geneva by the Governing Body of the International Labour Office, and having met in its 90th Session on 3 June 2002, and

Recognizing the importance of cooperatives in job creation, mobilizing resources, generating investment and their contribution to the economy, and

Recognizing that cooperatives in their various forms promote the fullest participation in the economic and social development of all people, and

Recognizing that globalization has created new and different pressures, problems, challenges and opportunities for cooperatives, and that stronger forms of human solidarity at national and international levels are required to facilitate a more equitable distribution of the benefits of globalization, and Noting the ILO Declaration on Fundamental Principles and Rights at Work, adopted by the International Labour Conference at its 86th Session (1998), and Noting the rights and principles embodied in international labour Conventions and Recommendations, in particular the Forced Labour Convention, 1930; the Freedom of Association and Protection of the Right to Organise Convention, 1948; the Right to Organise and Collective Bargaining Convention, 1949; the Equal Remuneration Convention, 1951; the Social Security (Minimum Standards) Convention, 1952; the Abolition of Forced Labour Convention, 1957; the Discrimination (Employment and Occupation) Convention, 1958; the Employment Policy Convention, 1964; the Minimum Age Convention, 1973; the Rural Workers' Organisations Convention and Recommendation, 1975; the Human Resources Development Convention and Recommendation, 1975; the Employment Policy (Supplementary Provisions) Recommendation, 1984; the Job Creation in Small and Medium-Sized Enterprises Recommendation, 1998; and the Worst Forms of Child Labour Convention, 1999, and

Recalling the principle embodied in the Declaration of Philadelphia that "labour is not a commodity", and

Recalling that the realization of decent work for workers everywhere is a primary objective of the International Labour Organization, and

Having decided upon the adoption of certain proposals with regard to the promotion of cooperatives, which is the fourth item on the agenda of the session, and

Having determined that these proposals shall take the form of a

Recommendation;

adopts this twentieth day of June of the year two thousand and two the following Recommendation, which may be cited as the Promotion of Cooperatives Recommendation, 2002.

I. SCOPE, DEFINITION AND OBJECTIVES

1. It is recognized that cooperatives operate in all sectors of the economy. This Recommendation applies to all types and forms of cooperatives.

2. For the purposes of this Recommendation, the term "cooperative" means an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.

3. The promotion and strengthening of the identity of cooperatives should be encouraged on the basis of:

(a) cooperative values of self-help, self-responsibility, democracy, equality, equity and solidarity; as well as ethical values of honesty, openness, social responsibility and caring for others; and

(b) cooperative principles as developed by the international cooperative movement and as referred to in the Annex hereto. These principles are: voluntary and open membership; democratic member control; member economic participation; autonomy and independence; education, training and information; cooperation among cooperatives; and concern for community.

4. Measures should be adopted to promote the potential of cooperatives in all countries, irrespective of their level of development, in order to assist them and their membership to:

(a) create and develop income-generating activities and sustainable decent employment;

(b) develop human resource capacities and knowledge of the values, advantages and benefits of the cooperative movement through education and training;

(c) develop their business potential, including entrepreneurial and managerial capacities;

(d) strengthen their competitiveness as well as gain access to markets and to institutional finance;

(e) increase savings and investment;

(f) improve social and economic well-being, taking into account the need to eliminate all forms of discrimination;

(g) contribute to sustainable human development; and

(h) establish and expand a viable and dynamic distinctive sector of the economy, which includes cooperatives, that responds to the social and economic needs of the community.

5. The adoption of special measures should be encouraged to enable cooperatives, as enterprises and organizations inspired by solidarity, to respond to their members' needs and the needs of society, including those of disadvantaged groups in order to achieve their social inclusion.

II. POLICY FRAMEWORK AND ROLE OF GOVERNMENTS

6. A balanced society necessitates the existence of strong public and private sectors, as well as a strong cooperative, mutual and the other social and non-governmental sector. It is in this context that Governments should provide a supportive policy and legal framework consistent with the nature and function of cooperatives and guided by the cooperative values and principles set out in Paragraph 3, which would:

(a) establish an institutional framework with the purpose of allowing for the registration of cooperatives in as rapid, simple, affordable and efficient a manner as possible;

(b) promote policies aimed at allowing the creation of appropriate reserves, part of which at least could be indivisible, and solidarity funds within cooperatives;

(c) provide for the adoption of measures for the oversight of cooperatives, on terms appropriate to their nature and functions, which respect their autonomy, and are in accordance with national law and practice, and which are no less favourable than those applicable to other forms of enterprise and social organization;

(d) facilitate the membership of cooperatives in cooperative structures responding to the needs of cooperative members; and

(e) encourage the development of cooperatives as autonomous and self-managed enterprises, particularly in areas where cooperatives have an important role to play or provide services that are not otherwise provided.

7. (1) The promotion of cooperatives guided by the values and principles set out

in Paragraph 3 should be considered as one of the pillars of national and international economic and social development.

(2) Cooperatives should be treated in accordance with national law and practice and on terms no less favourable than those accorded to other forms of enterprise and social organization. Governments should introduce support measures, where appropriate, for the activities of cooperatives that meet specific social and public policy outcomes, such as employment promotion or the development of activities benefiting disadvantaged groups or regions. Such measures could include, among others and in so far as possible, tax benefits, loans, grants, access to public works programmes, and special procurement provisions.

(3) Special consideration should be given to increasing women's participation in the cooperative movement at all levels, particularly at management and leadership levels.

8. (1) National policies should notably:

(a) promote the ILO fundamental labour standards and the ILO Declaration on Fundamental Principles and Rights at Work, for all workers in cooperatives without distinction whatsoever;

(b) ensure that cooperatives are not set up for, or used for, non-compliance with labour law or used to establish disguised employment relationships, and combat pseudo cooperatives violating workers' rights, by ensuring that labour legislation is applied in all enterprises;

(c) promote gender equality in cooperatives and in their work;

(d) promote measures to ensure that best labour practices are followed in cooperatives, including access to relevant information;

(e) develop the technical and vocational skills, entrepreneurial and managerial abilities, knowledge of business potential, and general economic and social policy skills, of members, workers and managers, and improve their access to information and communication technologies;

(f) promote education and training in cooperative principles and practices, at all appropriate levels of the national education and training systems, and in the wider society;

(g) promote the adoption of measures that provide for safety and health in the workplace;

(h) provide for training and other forms of assistance to improve the level of productivity and competitiveness of cooperatives and the quality of goods and

services they produce;

(i) facilitate access of cooperatives to credit;

(j) facilitate access of cooperatives to markets;

(k) promote the dissemination of information on cooperatives; and

(l) seek to improve national statistics on cooperatives with a view to the formulation and implementation of development policies.

(2) Such policies should:

(a) decentralize to the regional and local levels, where appropriate, the formulation and implementation of policies and regulations regarding cooperatives;

(b) define legal obligations of cooperatives in areas such as registration, financial and social audits, and the obtaining of licences; and

(c) promote best practice on corporate governance in cooperatives.

9. Governments should promote the important role of cooperatives in transforming what are often marginal survival activities (sometimes referred to as the "informal economy") into legally protected work, fully integrated into mainstream economic life.

III. IMPLEMENTATION OF PUBLIC POLICIES FOR THE PROMOTION OF COOPERATIVES

10. (1) Member States should adopt specific legislation and regulations on cooperatives, which are guided by the cooperative values and principles set out in Paragraph 3, and revise such legislation and regulations when appropriate.

(2) Governments should consult cooperative organizations, as well as the employers' and workers' organizations concerned, in the formulation and revision of legislation, policies and regulations applicable to cooperatives.

11. (1) Governments should facilitate access of cooperatives to support services in order to strengthen them, their business viability and their capacity to create employment and income.

(2) These services should include, wherever possible:

(a) human resource development programmes;

- (b) research and management consultancy services;
- (c) access to finance and investment;
- (d) accountancy and audit services;
- (e) management information services;
- (f) information and public relations services;
- (g) consultancy services on technology and innovation;
- (h) legal and taxation services;
- (i) support services for marketing; and
- (j) other support services where appropriate.

(3) Governments should facilitate the establishment of these support services. Cooperatives and their organizations should be encouraged to participate in the organization and management of these services and, wherever feasible and appropriate, to finance them.

(4) Governments should recognize the role of cooperatives and their organizations by developing appropriate instruments aimed at creating and strengthening cooperatives at national and local levels.

12. Governments should, where appropriate, adopt measures to facilitate the access of cooperatives to investment finance and credit. Such measures should notably:

- (a) allow loans and other financial facilities to be offered;
- (b) simplify administrative procedures, remedy any inadequate level of cooperative assets, and reduce the cost of loan transactions;
- (c) facilitate an autonomous system of finance for cooperatives, including savings and credit, banking and insurance cooperatives; and
- (d) include special provisions for disadvantaged groups.

13. For the promotion of the cooperative movement, governments should encourage conditions favouring the development of technical, commercial and financial linkages among all forms of cooperatives so as to facilitate an exchange of experience and the sharing of risks and benefits.

IV. ROLE OF EMPLOYERS' AND WORKERS' ORGANIZATIONS AND COOPERATIVE ORGANIZATIONS, AND RELATIONSHIPS BETWEEN THEM

14. Employers' and workers' organizations, recognizing the significance of cooperatives for the attainment of sustainable development goals, should seek, together with cooperative organizations, ways and means of cooperative promotion.

15. Employers' organizations should consider, where appropriate, the extension of membership to cooperatives wishing to join them and provide appropriate support services on the same terms and conditions applying to other members.

16. Workers' organizations should be encouraged to:

- (a) advise and assist workers in cooperatives to join workers' organizations;
- (b) assist their members to establish cooperatives, including with the aim of facilitating access to basic goods and services;
- (c) participate in committees and working groups at the local, national and international levels that consider economic and social issues having an impact on cooperatives;
- (d) assist and participate in the setting up of new cooperatives with a view to the creation or maintenance of employment, including in cases of proposed closures of enterprises;
- (e) assist and participate in programmes for cooperatives aimed at improving their productivity;
- (f) promote equality of opportunity in cooperatives;
- (g) promote the exercise of the rights of worker-members of cooperatives; and
- (h) undertake any other activities for the promotion of cooperatives, including education and training.

17. Cooperatives and organizations representing them should be encouraged to:

- (a) establish an active relationship with employers' and workers' organizations and concerned governmental and non-governmental agencies with a view to creating a favourable climate for the development of cooperatives;
- (b) manage their own support services and contribute to their financing;

- (c) provide commercial and financial services to affiliated cooperatives;
- (d) invest in, and further, human resource development of their members, workers and managers;
- (e) further the development of and affiliation with national and international cooperative organizations;
- (f) represent the national cooperative movement at the international level; and
- (g) undertake any other activities for the promotion of cooperatives.

V. INTERNATIONAL COOPERATION

18. International cooperation should be facilitated through:

- (a) exchanging information on policies and programmes that have proved to be effective in employment creation and income generation for members of cooperatives;
- (b) encouraging and promoting relationships between national and international bodies and institutions involved in the development of cooperatives in order to permit:
 - (i) the exchange of personnel and ideas, of educational and training materials, methodologies and reference materials;
 - (ii) the compilation and utilization of research material and other data on cooperatives and their development;
 - (iii) the establishment of alliances and international partnerships between cooperatives;
 - (iv) the promotion and protection of cooperative values and principles; and
 - (v) the establishment of commercial relations between cooperatives;
- (c) access of cooperatives to national and international data, such as market information, legislation, training methods and techniques, technology and product standards; and
- (d) developing, where it is warranted and possible, and in consultation with cooperatives, employers' and workers' organizations concerned, common regional and international guidelines and legislation to support cooperatives.

VI. FINAL PROVISION

19. The present Recommendation revises and replaces the Co-operatives (Developing Countries) Recommendation, 1966.

ANNEX

EXTRACT FROM THE STATEMENT ON THE COOPERATIVE IDENTITY,
ADOPTED BY THE GENERAL ASSEMBLY OF THE INTERNATIONAL CO-
OPERATIVE ALLIANCE IN 1995

The cooperative principles are guidelines by which cooperatives put their values into practice.

Voluntary and open membership

Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

Democratic member control

Cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives members have equal voting rights (one member, one vote) and cooperatives at other levels are also organized in a democratic manner.

Member economic participation

Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative.

Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

Autonomy and independence

Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including

governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.

Education, training and information

Cooperatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their cooperatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of cooperation.

Cooperation among cooperatives

Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.

Concern for community

Cooperatives work for the sustainable development of their communities through policies approved by their members.
